

FOREIGN OWNERSHIP AND FIRM VALUE: THE MODERATING ROLE OF TAX AVOIDANCE IN INDONESIAN LISTED FIRMS

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Abstract: *This study analyzes the effect of foreign ownership on firm value and evaluates whether tax avoidance moderates this relationship. The study uses panel data of companies listed on the Indonesia Stock Exchange during the period 2019–2023. The sample was selected using purposive sampling, resulting in 1,940 observations. Model estimation was performed using panel regression processed through STATA software, taking into account company size, leverage, asset growth, company age, and market capitalization as control variables. The results show that foreign ownership has a positive effect on firm value, and this effect is stronger in companies with higher effective tax rates, reflecting lower levels of tax avoidance. These findings indicate that foreign investors place a higher value on companies that not only have a large proportion of foreign ownership but also demonstrate stronger fiscal compliance and transparency. This study contributes by showing that the benefits of foreign ownership are greatly influenced by corporate tax behavior, thereby helping to explain the inconsistency of empirical findings in previous studies.*

Keywords: Foreign ownership; Tax avoidance; Effective tax rate; Firm value; Panel regression; Indonesia Stock Exchange.

Abstrak: Studi ini menganalisis pengaruh kepemilikan asing terhadap nilai perusahaan serta mengevaluasi apakah penghindaran pajak memoderasi hubungan tersebut. Penelitian menggunakan data panel perusahaan yang terdaftar di Bursa Efek Indonesia pada periode 2019–2023. Pemilihan sampel dilakukan dengan teknik purposive sampling, menghasilkan 1.940 observasi. Estimasi model dilakukan menggunakan regresi panel yang diolah melalui perangkat lunak STATA, dengan mempertimbangkan ukuran perusahaan, rasio utang, pertumbuhan aset, usia perusahaan dan kapitalisasi pasar sebagai variabel kontrol. Hasil penelitian menunjukkan bahwa kepemilikan asing berpengaruh positif terhadap nilai perusahaan, dan pengaruh ini semakin kuat pada perusahaan yang memiliki tarif pajak efektif lebih tinggi, yang mencerminkan tingkat penghindaran pajak yang lebih rendah. Temuan ini menunjukkan bahwa investor asing memberikan penilaian lebih tinggi kepada perusahaan yang tidak hanya memiliki proporsi kepemilikan asing yang besar, tetapi juga menunjukkan kepatuhan fiskal dan transparansi yang lebih kuat. Studi ini berkontribusi dengan menunjukkan bahwa manfaat kepemilikan asing

sangat dipengaruhi oleh perilaku pajak perusahaan, sehingga membantu menjelaskan inkonsistensi temuan empiris pada penelitian sebelumnya.

Kata kunci: Kepemilikan asing; Penghindaran pajak; Tarif pajak efektif; Nilai perusahaan; Regresi panel; Bursa Efek Indonesia

INTRODUCTION

Foreign ownership has become an increasingly important aspect of capital market development in emerging economies, particularly as global investors seek opportunities in markets with high growth potential. In Indonesia, ownership structure is often associated with differences in investor sophistication, monitoring intensity, and expectations regarding firm transparency. Badertscher et al. (2013) indicate that foreign shareholders may influence firm value through strengthened monitoring mechanisms, enhanced information processing, and higher demands for disclosure quality. However, empirical findings regarding the effect of foreign ownership on firm value remain inconsistent. According to Putri et al. (2024), the effect of foreign ownership on firm value is not strictly linear. While foreign shareholders can strengthen monitoring mechanisms and improve market discipline, thereby increasing firm value, excessively high levels of foreign ownership may lead to diminishing or negative effects as short-term performance pressures and owner-manager misalignment become more pronounced.

Alongside ownership structure, tax behavior has also become a central issue in understanding firm valuation. Tax avoidance reflects managerial decisions that involve both financial risk and reputational risk. The Effective Tax Rate (ETR) is frequently used as an indicator of tax avoidance, where lower ETR values signal more aggressive tax strategies and higher values indicate greater compliance (Seifzadeh, 2022). Foreign investors, in particular, are known to be more sensitive to regulatory and reputational risks associated with tax avoidance, which may influence their perception of firm value (Pujiningsih & Salsabya, 2022). Yet, prior studies examining the relationship between foreign ownership and tax avoidance also show mixed results. Suranta et al. (2020) find that foreign shareholders tend to limit tax aggressiveness as a way to maintain corporate legitimacy, whereas Nuritomo et al. (2020) show that certain ownership structures may encourage firms to engage in tax reduction strategies.

Despite the growing literature on ownership and tax behavior, research integrating foreign ownership, tax avoidance, and firm value remains limited in Indonesia. Studies that specifically examine the role of ETR as a moderating mechanism within this relationship are scarce, and those that do exist tend to focus on institutional or managerial ownership rather than foreign ownership (Davis, 2025). This gap is particularly relevant in Indonesia, where tax avoidance levels remain relatively high (Mujiyati et al., 2022) and investor protection mechanisms are still developing. These conditions make Indonesia an appropriate setting to investigate whether tax compliance can strengthen or weaken the influence foreign investors have on firm value.

Based on these gaps, this study aims to analyze the effect of foreign ownership and the Effective Tax Rate (ETR) on firm value, and to assess whether ETR moderates the relationship between foreign ownership and firm value in companies listed on the

Indonesia Stock Exchange. By positioning ETR as a potential legitimacy signal, this study offers new insight into how tax compliance may shape the valuation effects of foreign ownership in an emerging market context.

The results of research addressing the relationship between foreign ownership and firm value have produced mixed findings. Hong and Loan (2017) find that external monitoring and discipline mechanisms embedded in foreign ownership contribute to increased firm value by strengthening governance and oversight functions. In contrast, Putri et al. (2024) show that foreign ownership may reach a saturation point at which its influence on firm performance turns negative. While literature on ownership structure is extensive, studies on tax avoidance remain largely concentrated on institutional or managerial ownership (Nurjanah et al., 2025). Research that specifically positions the Effective Tax Rate (ETR) as a mechanism that may strengthen or weaken the influence of foreign ownership on firm value—particularly in emerging markets with unique governance characteristics such as Indonesia—remains limited. Thus, this study provides a relevant contribution by examining how tax efficiency or compliance (ETR) functions as a legitimacy signal that moderates the relationship between foreign ownership and firm value in companies listed on the IDX.

Table 1. Summary of Empirical Gaps Based on Previous Studies

Researcher	Research Focus	Key Findings	Relevant Limitations / Gaps
Hong & Loan (2017)	Foreign ownership → firm performance (Vietnam)	Foreign monitoring improves performance	Does not include ETR moderation
Ratnawati et al. (2018)	Institutional ownership → firm value moderated by ETR	ETR moderates institutional ownership → firm value	Focus only on institutional ownership, not foreign ownership
Abdullah et al. (2019)	Public ownership → tax evasion	Public ownership affects tax behavior	Does not examine firm value
Nofal (2020)	Foreign ownership → firm performance	Foreign ownership increases efficiency	Does not consider tax variables
Suranta et al. (2020)	Foreign ownership → tax avoidance	Foreign owners tend to suppress tax avoidance	Does not examine firm value as an outcome
Gupta et al. (2021)	Foreign ownership and management incentives	Foreign ownership may trigger tax risks	Does not examine ETR as a moderator
Shubita (2024)	Tax avoidance → firm value	Leverage moderates tax-value relationship	Does not include foreign ownership
Nurjanah et al. (2025)	Tax avoidance → firm value	Tax avoidance affects value	Not associated with ownership

LITERATURE REVIEW

Foreign Ownership and Firm Value

The Agency Theory recognizes Agency Conflicts as among the greatest difficulties in modern-day Governance structure; by providing owners with sufficient Monitoring capabilities, it enhances Management Decision making quality by reducing the possibility of opportunistic behavior (Nofal, 2020). Foreign Investors represent one group of individuals who can provide Owners a high level of Monitoring Capability that permits Owners to Monitor Management and ultimately improve Agency Cost, improve Operating Efficiency, and improve the Quality of Information provided by Management. Foreign Investors have higher Governance Standards, International Experience, and are more likely to demand higher Standards of Performance through Transparency. A number of Studies, such as Choi and Park (2019), have demonstrated that Companies with Foreign Investors have an Increased Value due to the Greater ability of External Investors to enhance the discipline within a Company. Putri et al. (2024) show that the relationship is not entirely straightforward, as firms with increasing levels of foreign ownership may experience a decline in value due to differences in strategic orientation, heightened short-term performance pressure, and limited understanding of local institutional conditions by foreign investors. These findings suggest that agency tensions among managers, controlling shareholders, and foreign investors are contingent upon the governance environment and the presence of supporting monitoring mechanisms.

As emerging economies, such as Indonesia, are supported by weak investor protections and concentrated ownership structures, the role of Foreign Shareholders as an external monitoring force can have a greater impact in determining the value of companies that operate within these markets. Hence, this study provides a new perspective on how foreign ownership influences the value of companies using an Agency Theory framework.

H1: Foreign ownership has a positive effect on firm value.

The Moderating Role of Effective Tax Rate in the Relationship between Foreign Ownership and Firm Value

Although previous studies have examined the relationship between foreign ownership and firm value, as well as the effects of tax avoidance on firm value, very few have analysed how these three variables interact simultaneously. In particular, the role of the Effective Tax Rate (ETR) as a moderating variable in the foreign-ownership-firm-value relationship has rarely been addressed. Prior research that employed ETR as a moderator generally focused on institutional or managerial ownership rather than foreign ownership (Ratnawati et al., 2018), leaving an empirical gap that this study aims to address.

A key theoretical rationale for expecting ETR to moderate this relationship arises from the signalling and legitimacy implications of tax compliance. Firms with higher ETRs tend to be perceived as more transparent, responsible, and aligned with legal expectations, and a higher ETR indicates that the firm's reported tax burden is closer to statutory requirements, signalling reliability and reduced fiscal risk. Foreign investors are especially sensitive to reputational and regulatory risks, and therefore

tend to favour firms with higher tax compliance as an indication of credible fiscal behaviour (Pujiningsih & Salsabya, 2022).

This is important because the effectiveness of foreign investors' monitoring depends on the availability of trustworthy information. When a firm exhibits high tax compliance, the monitoring role of foreign ownership can operate more effectively, reinforcing the positive impact of foreign ownership on firm value. Conversely, when ETR is low, the risk of managerial opportunism, information asymmetry, and regulatory scrutiny increases, weakening the governance benefits typically associated with foreign ownership.

Thus, ETR functions as a mechanism that can either strengthen or diminish the influence of foreign ownership on firm value. High ETR enhances the credibility of firm disclosures and reduces uncertainty, enabling foreign investors to enforce stronger governance discipline. Low ETR, on the other hand, lowers the informativeness of monitoring signals and makes foreign investors less effective in influencing firm value.

H2: Effective Tax Rate strengthens the positive influence of foreign ownership on Firm Value.

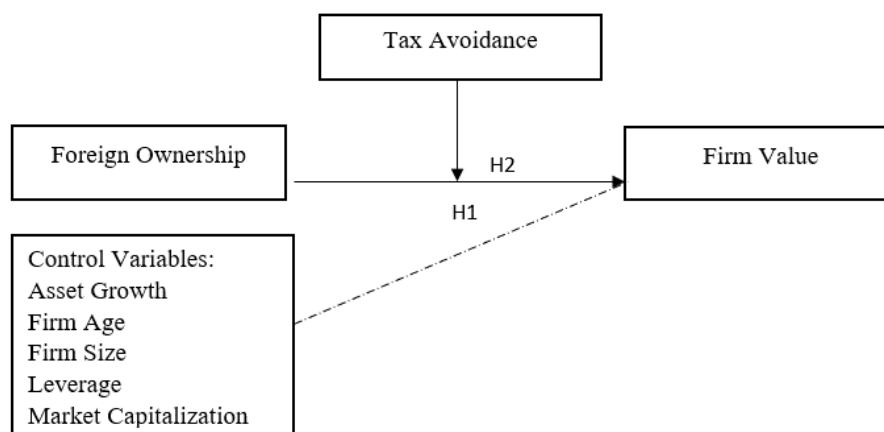


Figure 1: Conceptual Framework

RESEARCH METHOD

Research Design

This study adopts a quantitative causal approach to examine the effect of foreign ownership on firm value and to assess whether the Effective Tax Rate (ETR) moderates that relationship. This design was selected because it enables the systematic evaluation of structured relationships between variables across companies and across time.

Population and Sampling

The research includes all non-financial companies listed on the Indonesia Stock Exchange during the period 2019–2023. A sample was conducted using purposive sampling based on the following :

1. Companies were consistently on the IDX during the research.
2. Companies provided complete annual reports and financial statements.

3. Complete data for firm value, ownership structure, taxation, and all control variables must be available.
4. Financial sector companies were excluded because they have different accounting and regulatory characteristics.

The final number of observations was obtained from the number of unique companies that met the criteria multiplied by the five-year observation.

Variable Measurement

Firm Value (Dependent Variable)

Firm value is measured using Tobin's Q as follows:

$$\text{Tobin's Q} = \frac{\text{Market Value of Equity} + \text{Total Debts}}{\text{Total Assets}}$$

This indicator reflects how the market assesses a company's ability to utilize its assets productively (Hasan et al., 2021).

Foreign Ownership (Independent Variable)

Foreign ownership is calculated as the percentage of shares owned by foreign investors relative to the total outstanding shares:

$$\text{FOROWN} = \frac{\text{Shares Held by Foreign Investors}}{\text{Total Outstanding Shares}} \times 100\%$$

This measurement reflects the level of foreign owners' involvement in the governance (Putri et al., 2024).

Effective Tax Rate - ETR (Moderating Variable)

$$\text{ETR} = \frac{\text{Tax Expense}}{\text{Pre-tax Income}}$$

A higher ETR reflects greater tax compliance, while a lower ETR indicates more aggressive tax planning (Abdullah et al., 2019).

Control Variables

To minimize bias due to omitted variables, this uses the following control variables.

1. Leverage (LEV)	$\frac{\text{Total Debts}}{\text{Total Assets}}$	Kim et al., 2024
2. Asset Growth (AG)	$\frac{\text{Assets}_t - \text{Assets}_{t-1}}{\text{Assets}_{t-1}}$	Choi & Park, 2019
3. Firm Age (FAGE)	Reporting Year-Year of Establishment	Shubita & Shubita, 2019
4. Company Size (LN_ASSET)	$\text{LN}_{\text{ASSET}} = \ln(\text{Total Assets})$	Hong & Loan, 2017
5. Market Capitalization (LNMC)	$\text{LNMC} = \ln(\text{Share Price} \times \text{Outsanding Shares})$	Chiu et al., 2023

Outlier Handling Variable

Using ETR, Tobin's Q, leverage, and asset growth as indicators of extreme values, multiple data treatment processes were used in an effort to help provide more reliability in estimation. One method that was applied was a natural logarithm transformation applied to company size and market capitalization in order to take

some of the scale distortion out of the corporate size variable; this would give comparable measurement across companies with significantly different asset values and market capitalization levels. Such adjustments reduce the likelihood of outlier influence, resulting in a stabilisation of the regression coefficient values.

Regression Model

Direct Effect Model

$$\text{TOBINSQ}_{it} = \beta_0 + \beta_1 \text{FOROWN}_{it} + \beta_2 \text{AG}_{it} + \beta_3 \text{FAGE}_{it} + \beta_4 \text{LN_ASSET}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{LNMC}_{it} + \mu_i + \varepsilon_{it}$$

Moderation Model

$$\text{TOBINSQ}_{it} = \beta_0 + \beta_1 \text{FOROWN}_{it} + \beta_2 \text{ETR}_{it} + \beta_3 (\text{FOROWN} \times \text{ETR})_{it} + \beta_4 \text{AG}_{it} + \beta_5 \text{FAGE}_{it} + \beta_6 \text{LN_ASSET}_{it} + \beta_7 \text{LEV}_{it} + \beta_8 \text{LNMC}_{it} + \mu_i + \varepsilon_{it}$$

To reduce the potential for endogeneity, particularly selection bias due to the tendency of well-performing companies to attract foreign investors, this study uses a fixed effects to control for company characteristics that do not change over time, and year fixed effects to capture annual macroeconomic variations. In addition, Propensity Score Matching (PSM) is applied by matching companies based on LEV, AG, FAGE, LN_ASSET, and LNMC to improve the balance of characteristics and reduce foreign investor selection bias. This strengthens the validity of causal inference from the estimated.

Testing of classical shows that multicollinearity is not a problem, as indicated by the average VIF of 2.15. Estimates were performed using robust standard errors clustered at the company to address heteroscedasticity and autocorrelation. The Hausman test also confirmed that the fixed effects are more than the random. All estimates were performed using STATA version 17.

RESULTS AND DISCUSSION

Descriptive statistics provide an initial understanding of the characteristics and distribution of the variables studied, and serve as a preliminary step in assessing data quality before performing regression analysis. Table 02 presents the results of descriptive statistical analysis of all variables used in this study.

Table 2. Descriptive Statistics

	N	Mean	Standard Deviation	Min	Maximum
TOBINSQ	1940	27.471	226,478	0.085	5,737.052
FOROWN	1940	13,787	24,301	0.000	99,347
AG	1940	1,939	72,408	-0.999	3,154,073
FAGE	1940	32,746	17,373	1,000	112,000
LN_ASSETS	1940	28,439	1,845	17,983	33,731
LEV	1940	5,152	109,619	0.002	3,461.978
LNMC	1940	28,233	2,358	14,355	38,470
ETR	1940	0.244	3,210	-16,254	103,922

Substantial differences exist across companies when looking at market capitalization (Tobin's Q) and effective tax rate (ETR). Firms with higher Tobin's Q

compared to their peers indicate an overvaluation of those firms relative to their average competitor. Conversely, the wide range of ETR demonstrates that corporations are taking very different approaches to managing their tax obligations. Furthermore, on average, firms have lower levels of foreign ownership (FOROWN), but it is clear that there are some instances where certain firms have a large % of foreign shareholdings. Consequently, fixed effects must be used to account for heterogeneity in firm-specific characteristics, and the regression results should not reflect differences between firms based on their business models and structures.

Table 3. Frequency Tabulation of Industries

SECTOR	Freq.	Percent	Cum.
Basic Materials	205	10.57	10.57
Consumer Cycle	390	20.10	30.67
Non-Cyclical Consumers	325	16.75	47.42
Energy	100	5.15	52.58
Health	80	4.12	56.70
Industry	195	10.05	66.75
Infrastructure	230	11.86	78.61
Property and Real Estate	260	13.40	92.01
Technology	60	3.09	95.10
Transportation & Logistics	95	4.90	100.00
Total	1940	100.00	

The industry tabulation in Table 03 shows that the research sample is cross-sectoral, with a dominance of the consumption and property sectors. This composition illustrates the structure of the Indonesian capital market, which is largely supported by the consumption and real estate sectors, and supports the use of fixed industry effects in the regression model to control for sectoral differences.

Table 4. Pearson Correlation

	TOBINSQ	FOROWN	ETR	AG	FAGE	LN_Asset	LEV	LNMC
TOBINSQ	1,000							
FOROWN	0.063*** (0.005)	1,000						
ETR	-0.005 (0.809)	0.017 (0.463)	1,000					
AG	-0.003 (0.883)	0.025 (0.271)	-0.002 (0.939)	1.000				
FAGE	-0.005 (0.812)	0.080*** (0.000)	0.014 (0.528)	-0.007 (0.773)	1.000			
LN_Assets	-0.199*** (0.000)	0.033 (0.148)	-0.001 (0.965)	-0.028 (0.211)	0.246*** (0.000)	1.000		
LEV	0.708*** (0.000)	0.008 (0.736)	-0.003 (0.888)	-0.001 (0.950)	-0.016 (0.476)	-0.174*** (0.000)	1.000	
LNMC	0.177*** (0.000)	-0.014 (0.525)	-0.009 (0.703)	-0.021 (0.359)	0.152*** (0.000)	0.594*** (0.000)	-0.017 (0.458)	1.000

Pearson's correlation analysis in Table 04 shows that there is no very high correlation between variables, so the risk of multicollinearity is considered low. Leverage has a strong positive correlation with Tobin's Q, indicating that debt-based funding structures are associated with higher market valuations, possibly because debt is used to finance productive expansion. Companies with greater market capitalization also have a higher value according to Tobin's Q Ratio. Conversely, larger companies do not necessarily have a more profitable use of their assets from a market perspective as shown by the negative correlation between LN_ASSET (size of assets) and Tobin's Q. FOROWN has a weak positive relationship with Tobin's Q; therefore, the rationale for such correlation is based on the assumption, but requires the use of multivariate regression analysis to confirm this hypothesis. Overall, the relatively high correlation between LN_ASSET and LNMC indicates there are underlying factors connecting asset size and company size in the market.

Table 5. Regression Analysis

	(1) TOBINSQ	TOBINSQ
FOROWN	0.721*** (2.95)	0.706*** (2.93)
AG	-0.024*** (-2.67)	-0.024*** (-2.66)
FAGE	0.440*** (2.77)	0.441*** (2.78)
LN_ASSETS	-40,079*** (-4.64)	-40,145*** (-4.64)
LEV	1,350*** (6.65)	1,350*** (6.64)
LNMC	36,411*** (5.59)	36,430*** (5.59)
ETR		-2,382** (-2.41)
FOROWN_ETR		0.087** (2.12)
_cons	102.505 (0.85)	104,221 (0.87)
FE Industry	Yes	Yes
FE Year	Yes	Yes
F	6,295	5,842
r2_a	0.605	0.605
N	1940	1940

t-statistic in parentheses

* $p < 0.1$, (*) $p < 0.05$, (**) $p < 0.01$

Table 05 shows that Foreign Ownership has a positive and statistically significant effect on firm value in both models, supporting H1. This result is consistent

with earlier studies such as Ahmed and Iwasaki (2021) and Hong and Loan (2017), which suggest that foreign shareholders strengthen monitoring, reduce managerial opportunism, and enhance firm valuation through improved governance quality. In the Indonesian context, where ownership concentration is high and investor protection remains relatively weak, the presence of foreign shareholders functions as an external governance mechanism that disciplines management and encourages more efficient decision-making. This institutional setting explains why foreign ownership tends to yield stronger valuation effects in emerging markets than in developed economies.

The interaction term between Foreign Ownership and the Effective Tax Rate (ETR) is also statistically significant and positive, supporting H2. This finding aligns with legitimacy theory and prior empirical evidence Pujiningsih and Salsabyula (2022), indicating that foreign investors place higher value on firms that display transparent and compliant tax practices. Higher ETR signals lower fiscal risk, reduced probability of sanctions, greater alignment with regulatory expectations, and overall higher corporate integrity. Consequently, the valuation-enhancing role of foreign ownership intensifies when firms exhibit stronger tax compliance, suggesting that foreign shareholders respond not only to ownership structure but also to the quality of firms' fiscal behavior.

The negative main effect of ETR indicates that tax avoidance may provide short-term cash flow benefits but simultaneously increases litigation risk, regulatory scrutiny, and information asymmetry patterns well documented in accounting research (Nofal, 2020). These risks can erode firm value when aggressive tax strategies create uncertainty regarding future penalties or earnings sustainability. The positive interaction term suggests that foreign ownership moderates these risks because compliant firms offer stronger legitimacy signals, effectively mitigating the uncertainty typically associated with tax avoidance. This dynamic highlights the complementary roles of governance discipline (from foreign investors) and legitimacy building (through tax compliance) in shaping firm value.

Regarding control variables, the large coefficients on LN_ASSET and LNMC stem from scale differences relative to Tobin's Q rather than economic implausibility. After logarithmic transformation, these variables maintain theoretically meaningful variation and remain interpretable within standard firm valuation frameworks. Their significance indicates that company size and market capitalization remain central determinants of firm value, consistent with empirical patterns observed in emerging markets. Therefore, the magnitude of their coefficients does not compromise the validity of the regression model nor distort the interpretation of the main effects.

Table 6. Robustness Analysis

Summary of Matching		
	FOROWN = 0	FOROWN = 1
All	1215	725
Matches	1215	725
Not suitable	0	0

	(1) TOBINSQ	(2) TOBINSQ
FOROWN	0.755*** (3.13)	0.740*** (3.11)
AG	-0.026* (-1.69)	-0.026* (-1.70)
FAGE	0.578** (2.42)	0.578** (2.42)
LN_ASSETS	-42.168*** (-3.05)	-42.321*** (-3.05)
LEV	1,343*** (6.54)	1,342*** (6.53)
LNMC	37,174*** (3.87)	37,211*** (3.87)
ETR		-2,298* (-1.95)
FOROWN_ETR		0.086* (1.81)
_cons	130,580 (0.63)	134,296 (0.65)
FE Industry	Yes	Yes
FE Year	Yes	Yes
F	4,589	4,204
r2_a	0.625	0.624
N	1204	1204

t-statistic in parentheses

* $p < 0.1$, (*) $p < 0.05$, (**) $p < 0.01$

The PSM matching summary shows that all 1,215 observations in the FOROWN = 0 group and 725 observations in the FOROWN = 1 group fall within the common support region, with no observations discarded during the matching process. This outcome demonstrates that the observable characteristics of firms in both groups are sufficiently balanced after matching, thereby reducing concerns that systematic differences between firms with and without foreign ownership drive the results.

The stability of the direction and significance of the coefficients for FOROWN and FOROWN_ETR in Table 06 further confirms that the relationship between foreign ownership, tax compliance (ETR), and firm value is not merely an artifact of sample selection bias. Even after companies are matched based on company size, leverage, growth, age, and market capitalization, foreign ownership continues to exhibit a positive and statistically significant effect on firm value. This consistency strengthens the interpretation that foreign shareholders genuinely contribute monitoring benefits that enhance valuation, rather than simply selecting firms that already possess favorable characteristics.

Similarly, the persistence of the positive moderating effect of ETR after matching provides additional evidence that tax compliance plays a complementary role in

amplifying the valuation impact of foreign ownership. This finding aligns with the theoretical expectation that foreign investors prefer firms with transparent fiscal behavior, as such firms signal lower regulatory and reputational risk even when observed characteristics are controlled for. The robustness of this moderating relationship reinforces the argument that ETR functions as a legitimacy mechanism rather than a spurious correlate.

The slightly higher adjusted R^2 in the PSM model compared to the main regression suggests that the explanatory power of the model improves when biases arising from observable firm-level differences are mitigated. This improvement underscores that the main results are not sensitive to specification changes and remain stable under alternative sampling structures. Taken together, the PSM findings increase confidence in the causal interpretation of the relationship between foreign ownership, tax compliance, and firm value, particularly within the context of emerging markets.

Table 7. Additional Analysis

	(1) MTB	(2) MTB
FOROWN	-2,384 (-0.78)	-2,337 (-0.79)
AG	0.010 (0.33)	0.010 (0.32)
FAGE	-0.649 (-0.67)	-0.646 (-0.67)
LN_ASSETS	48.988 (0.55)	49.182 (0.55)
LEV	0.124 (0.53)	0.124 (0.53)
LNMC	-49.740 (-0.52)	-49.823 (-0.52)
ETR		4,678 (0.39)
FOROWN_ETR		-0.247 (-0.44)
_cons	-93.787 (-0.52)	-97.383 (-0.54)
FE Industry	Yes	Yes
FE Year	Yes	Yes
F	1,109	1,001
r2_a	0.003	0.002
N	1940	1940

t-statistic in parentheses

* $p < 0.1$, (*) $p < 0.05$, (**) (*) $p < 0.01$

The additional analysis using the Market-to-Book Ratio (MTB) as an alternative proxy for firm value in Table 07 shows that neither foreign ownership nor the

interaction term *FOROWN_ETR* has a significant effect. This result is not unexpected, as MTB is known to be more sensitive to short-term market fluctuations and price volatility than Tobin's Q. Unlike Tobin's Q, which incorporates replacement cost and reflects long-term economic fundamentals, MTB is highly influenced by investor sentiment, temporary mispricing, and market-wide shocks. These characteristics can obscure structural relationships between ownership, governance-related signals, and valuation. Consequently, MTB may not adequately capture the monitoring benefits associated with foreign ownership or the legitimacy effects conveyed by tax compliance.

The contrasting results between the two valuation proxies highlight an important conceptual distinction. Tobin's Q reflects forward-looking assessments of firm efficiency and investment opportunities, making it more responsive to governance and monitoring mechanisms such as foreign ownership. MTB, by contrast, is driven more by short-term equity price movements and can therefore dilute the observable impact of foreign ownership or fiscal compliance on firm value. This divergence aligns with prior research indicating that valuation proxies embody different sensitivities, and their selection can meaningfully influence empirical findings in emerging markets.

Substantively, the overall results indicate that foreign ownership contributes positively to firm value in Indonesia, and that this effect is conditional on the level of tax compliance. In environments characterized by weak investor protection and high ownership concentration, foreign investors serve as an additional oversight mechanism that discourages managerial opportunism. Higher ETR strengthens this effect by signalling lower fiscal risk and more transparent financial practices, consistent with agency theory's premise of enhanced monitoring and legitimacy theory's emphasis on regulatory conformity as a source of market credibility. The dependence of the foreign ownership effect on ETR also helps explain why previous studies have reported inconsistent findings when tax-related variables were not incorporated into the analysis.

The outcome of our analysis shows that firm value is positively affected by foreign ownership. After correcting for potential selection bias using PSM, the positive effect of foreign ownership remains consistent. This trend is consistent with the prediction of agency theory, which states that foreign investors can supervise management's opportunistic behaviour better than domestic investors (Ahmed & Iwasaki, 2021). The historical concentration of ownership and lack of investor protections in Indonesia mean that monitoring by external parties is necessary to prevent opportunism.

The moderating effect of ETR indicates that the relationship between foreign ownership and corporate valuations is enhanced when tax compliance levels are elevated. The positive coefficient of interaction is aligned with the argument put forth by the theory of institutional legitimacy, which indicates that compliance with fiscal laws is an indicator of integrity and lessens the level of regulatory risk perceived by the marketplace (Fadillah, 2019). Therefore, in Indonesia, where there is still evidence of tax avoidance, an elevated ETR will provide foreign investors with more assurance that firms are employing a lower level of risk and more transparent fiscal practices.

To summarise, foreign ownership has been shown to provide an increase in company worth, but this effect is contingent upon, and highly influenced by, the level of tax compliance. The combination of discipline from foreign investors' monitoring and the fiscal legitimacy derived through increased Effective Tax Rates serves as a key to understanding the differences in firm value in Indonesia.

CONCLUSION

This study shows that foreign ownership contributes positively to firm value and that this influence becomes stronger when companies demonstrate higher levels of tax compliance. The findings underline the monitoring function of foreign investors, consistent with agency theory, and highlight the role of transparent tax behavior in strengthening institutional legitimacy. In practice, companies that maintain credible tax compliance while opening greater access to foreign shareholders tend to receive more favorable market valuations, partly because foreign investors bring stronger governance expectations and higher monitoring standards into the decision-making process.

From a policy standpoint, the results emphasize the need for stronger tax transparency requirements and consistent enforcement of fiscal disclosure. Clearer reporting of tax information can help reduce information asymmetry in capital markets and foster a more attractive investment environment for foreign capital. Policymakers may use these insights to design regulations that support both market integrity and investor confidence.

This study, however, has several limitations that should be noted. The measurement of key variables – particularly Tobin's Q and the Effective Tax Rate – is constrained by the limitations of these proxies, which may not fully capture market fundamentals or tax avoidance behavior under all circumstances. The set of explanatory variables is also limited; firm value is influenced by a wide range of governance and market factors that could not be included due to data availability, such as board quality, audit strength, and ownership concentration. Although fixed effects and PSM help mitigate endogeneity, they cannot rule out the possibility of reverse causality, especially in a setting where successful firms naturally attract foreign investors. Additionally, the dataset comprises only publicly listed companies, which limits generalization to private or smaller firms with different governance structures.

In light of these limitations, several recommendations can be made. Future studies may strengthen measurement accuracy by employing alternative proxies for firm value and tax behavior, such as Market-to-Book, Return on Assets, Book-Tax Differences, or Cash ETR. Incorporating additional governance-related variables would provide a more comprehensive understanding of how foreign ownership interacts with internal monitoring mechanisms. To address endogeneity more rigorously, researchers could apply dynamic panel GMM, instrumental variable techniques, or event-study designs. Expanding the scope to include private firms or conducting comparative analyses across ASEAN countries may also offer deeper

insights into how institutional environments shape the relationship between foreign ownership, tax compliance and firm value.

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